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Gaining Momentum Towards Customer Centricity

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What is customer centricity and how can this latest phenomenon help banks become more profitable and maintain a loyal customer base?

'Customer centricity' is the latest buzzword in most business organisations around the world. Though the banking and financial services industry latched on to this concept a little later than other customer-oriented organisations such as retail giants, owing to the pressures of competition, and riding the waves of technology, commoditisation and globalisation, banks are catching up quickly, contrary to the predictions of industry pundits.

These days, the banking and financial services industry segment is talking about customer-centric initiatives like never before. Industry leaders are banking on customer-centric principles to gain competitive leverage across all aspects of marketing and enterprise strategies. According to one analyst, 70% of the tier-one and tier-two banks in Europe have embarked on the journey towards customer centricity - in fact, some are already there!

So, it goes without saying that customer centricity is a mantra. But how does it make the banking business truly profitable? Before we try to find the answer, let's define customer centricity according to the emerging business paradigm. When experts says 'customer centric', they mean:

- Know your customer as the whole - understand the depth of each customer relationship and know which customer segments to focus on in the market place.
- Be more sensitive to customer needs - a relationship manager should manage customer relationships, increase the number of products per customer and ensure fair returns on each customer relationship for both the bank and the customer.
- Design new products and packages to meet customer needs.
- Create negotiated and personalised pricing plans to introduce more transparency in pricing and billing for customers.
- Price your services and provide discounts, rebates and loyalty points to reflect the total value a customer brings to the bank.

In essence, when analysts say 'customer centricity' they imply a win/win solution for the bank and its customer.

Relationship-based Pricing - A Win/Win Solution?

How does pricing come to the fore of customer centric moves? Take a look at what industry analyst firm, Gartner, has to say based on its survey among bank customers: 'Pricing is the number one reason that a customer selects his bank'. As banking products commoditise, banks use pricing as a tool for competitive differentiation. They are coming up with reward programs, offset accounts and innovative packages to attract and retain customers.

Analyst firm, Celent, predicts that by 2010, over 60% of banks will offer rewards, up from 31% in 2005, taking advantage of the shifting customer preferences. The importance of pricing is further magnified as shrinking interest revenues force banks to become more dependent on the fee income.

In order to achieve true customer centricity, banks should take three essential steps: segmentation, packaging and personalization. These are cornerstones of relationship-based pricing (RBP).

1. *Segmentation*: The most important step in understanding your customer is knowing that all your customers are not the same. The price, product bundle or reward program that suits one customer may not fit another. The bank's success lies in the accurate segmentation of its customers. Utilising historic customer data, banks should be able to segment their customers according to usage pattern and the value they bring to the bank. For this, banks need a true 360-degree view of the customer across various product/business lines.
2. *Packaging*: How can banks make their commoditised product offerings more appealing to customers? Knowing their usage pattern and behaviour, banks can create personalised bundles/packages customised to specific segments of customers. An innovative bundle should contain products from different product lines. This step helps to multiply cross-selling and up-selling opportunities by selling more number of products to the customer, and thereby increasing the wallet share.
3. *Personalisation*: As part of such bundles, banks should be able to offer differential pricing plans and loyalty programmes based on various attributes of the customer, product and even transaction. With a 360-degree view of the customer relationship, banks will be able to reward their customers more productively.

Hurdles To Relationship-based Pricing

Pricing practices have still not fully evolved in the banking and financial services industry. In most cases, banks and financial institutions are still product centric, rather than customer centric - concentrating on the profitability of a product, rather than the profitability of a customer. Pricing practices are complex and inconsistent and are heavily influenced by competition. In many cases, discrepancies creep into the information dispensed from a branch, official literature or the information given by pricing specialists at the bank's headquarters.

Though pricing is an important task, the level of pricing sophistication varies widely. Several banks perform this function manually; the few that have automated have restricted it to certain product lines. In many banks, pricing is still performed by the core banking engine or the product processors in each business line. These product silos do not talk to each other and help only in restricting the bank from having a 360-degree view of the customer. They offer primitive pricing capabilities and are not able to cater to the personalised pricing needs of the bank's customers. These manual and disparate pricing systems are prone to errors and often lead to overcharging and revenue leakage.

Banks can overcome these hurdles by taking the following key steps:

Consolidate: Banks should extricate the pricing and billing practice from product processors and consolidate it across product/business lines. Centralising the pricing and billing practice helps the banks to have a true 360-degree view of the customer across business lines. A centralised data repository ensures that all pricing policies and price lists are stored at a single location. This results in consistency and transparency in pricing. This will also ease the integration efforts with other systems, since multiple pricing and billing systems means multiple connections. A streamlined pricing and billing practice results in more efficient processes, thus reducing the cost of operations, plugging revenue leakage and ensuring increased revenues.

Automate: Automating the pricing practice brings greater precision and efficiency to the process and in turn ensures better margins. Through automation, banks can bring business rules to the pricing process, which provides the flexibility to apply price changes adhoc, and the agility to quickly respond to competition.

Gain Momentum Today, To Win Tomorrow's Race

Centralising pricing and billing practice will help banks to achieve customer centricity by creating an overall customer experience through superior, personalised products and services. The transformation from product centric banking to customer centric relationship-based banking is gaining momentum - and this pervasive change is sure to lead early adopters towards the holy grail of customer satisfaction!